

Why the EU will have an industrial policy – but not necessarily a good one

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How best to support its industry has been a perennial issue for the European Union (EU). The Commission's approach has been an attempt to mainstream industrial competitiveness across policy areas. But this hardly constitutes an adequate strategic industrial policy. The EU and its members must recognise that current global pressures require a common and forward-looking approach to ensure that European industry can thrive.

Others are already recognising the need for change. The UK's Industrial Strategy Commission¹, for example, noted: "whilst the UK has had many policies for industries, policies for science and innovation, policies for skills and so on – it has never had the comprehensive industrial strategy that the UK needs. This must now change. An industrial strategy encompasses the strategic co-ordination of all economic interactions between the state and the private sector. It should be informed by a positive vision of a future destination for our country, and motivated by an urgent sense of national purpose." This analysis equally applies to the EU27's integrated economy.

Current industrial policies

Member states have always pursued a mix of policies to support the long-term development of industry, for example through the taxation system, energy and climate policies, strategic influence on the development of skills and education and/or support for the digitalisation of industry.

Industrial policies have also been a feature within the EU. At the core, the rules governing the Single Market have served as a pan-European mechanism to regulate our industry, predominantly by creating a level playing field for companies, while still allowing some limited mechanisms for countries to intervene in industrial sectors when desired, for example in the defence sector, which has a partial exemption from the usual competition provisions, or the automotive sector in times of crisis.

By-and-large this has worked within the EU. European companies have had to accept cross-border competition with a much reduced ability of national governments to intervene, gaining, in return, access to a pan-European market. The system has been far from perfect and, at times, different member states have succumbed to the temptation to intervene, allegedly to 'protect jobs'. But the tools of competition and Single Market policy have broadly been effective to keep the worst excesses in check.

A changed world

Globalisation is now challenging the effectiveness of such policies. Non-EU companies have been able to use the differences between member states to enter the Single Market in the country where they face the least restrictions or where they receive the most generous support, while still benefiting from free access to the rest of the EU. Common EU policies, for example on technologies such as renewables, have encouraged new products but industrial activity has not always stayed within the EU. While Single Market rules enforce a degree of compliance with global trade rules and openness to investment, foreign competitors have not felt the same restrictions, using, for example, the protection of sensitive industries or cheap financing as a tool for strategic industrial development.

There are also internal contradictions arising from diverse national policies or different implementation of EU rules in areas such as energy or data protection. These distortions lead to fragmentation within the Single Market, influencing firms' location decisions. They also disadvantage the EU as a global industrial competitor. At the same time, there is growing recognition that the future competitiveness of EU industry will depend on successful transformations, including in digitalisation, greening, the creation of global value chains, the acceleration of innovation and new business models, as well as in the integration of manufacturing and services.

¹ See <http://industrialstrategycommission.org.uk/wp-content/uploads/2017/07/Laying-the-Foundations-the-Industrial-Strategy-Commission.pdf>.

All this implies that a new industrial policy should not support ailing industries and behemoth national champions but aim to increase Europe's competitiveness through the creation of a global level playing field, and encouraging the transformation of our industries.

More account also needs to be taken of those who feel threatened or lose out from this increase in global competition. Many citizens perceive globalisation as a threat and not as an opportunity. Effective policies must therefore ensure that all segments of the EU population benefit from the gains that globalisation continues to bring to the Union.

A new political momentum

Much of this has been known for a long time. So why will there be a new impetus? Key is the renewed political momentum in member states. Issues such as the rise of anti-globalisation sentiments exploited by populists, the perceived unfairness of corporate taxation or the unease regarding Chinese investments have gained in political salience in many domestic debates. There is also renewed momentum in favour of European integration, as shown by the recent step towards further cooperation in the field of security, which will have an impact on the defence sector. At the same time, the global environment is changing, with a rise of protectionism and with the United States no longer being a stable guarantor of an open global economic system. And competition based on lower taxation or lesser labour and environmental standards could potentially come much closer to home, depending on the direction of UK policy post Brexit. A 'mercantilist' UK would trigger a response from the EU to prevent unfair competition.

Towards a European industrial policy?

A European industrial policy is very much needed in this context. It does not imply that the EU will, for example, block Chinese investments, harmonise national tax policies or erect a protective wall around the EU27 economy. Rather, the EU needs a consistent and strategic framework for its policies, to maintain and defend openness and competition. It should show that there is no need for protectionism and closed markets when faced with global competition.

But the bad news is that political pressures will not necessarily lead to a European industrial policy. Unless there is a coordinated response, it might well result in national actions, implying ineffectiveness with regard to third countries and further fragmentation of the Single Market. Some member states would have the financial and institutional capacity to do significantly more than others, resulting in a deepening of inequalities. Others might well succumb to the temptation to protect uncompetitive industries, providing short-term relief but weakening the EU in the long term. This would be the worst of all worlds – an industrial policy that reduces competitiveness instead of enhancing it.

The EU and its members should develop a coordinated and strategic industrial policy that supports Europe's industrial transformations, deals with inconsistencies, addresses legitimate social concerns and enhances the EU's overall competitiveness. More specifically, it should entail a more consistent approach towards third countries on investment, a more forward-looking competition policy that takes into account the distortions within global competition caused by government interventions and the right incentive system to encourage innovation and the greening and digitalisation of industry.

The alternative is a fragmented and uneven policy, looking to preserve industrial jobs in the short term without responding to the structural challenges industry faces. To prevent such an outcome and to push this issue onto the EU agenda, it should be the countries in northern Europe that have traditionally been opposed to a European industrial policy that should take the lead, encouraging the Commission to establish a common strategic framework for Europe's industrial policies.

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